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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 CAB-02 CIAE-00 COME-00 DODE-00

DOT-00 INR-05 NSAE-00 RSC-01 FAA-00 PM-03 NSC-05

SP-02 SS-15 L-02 H-01 PA-01 PRS-01 USIE-00 SSO-00

NSCE-00 INRE-00 OMB-01 TRSE-00 USPS-01 FEAE-00 STR-01

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FM AMEMBASSY THE HAGUE

TO SECSTATE WASHDC IMMEDIATE 4827

C O N F I D E N T I A L THE HAGUE 5894

E.O. 11652: GDS

TAGS: EAIR, NL

SUBJ: CIVAIR: EVALUATION OF CURRENT SITUATION

SUMMARY: TO PROVIDE CURRENT CIVAIR BACKGROUND FOR SECRETARY KISSINGER'S DEC 11 DISCUSSIONS WITH FOREIGN MINISTER MAX VAN DER STOEL. WE HAVE SOUNDED OUT SOME OF THE KEY DUTCHMEN IN THE FIELD. THESE CONTACTS INDICATE THERE IS STILL A CHANCE TO BRING ABOUT A RESUMPTION OF BILATERAL NEGOTIATIONS OR DIRECT PANAM KLM TALKS TO SEEK MUTUALLY ACCEPTABLE ACCOMMODATION. WE STRONGLY RECOMMENDED AN EFFORT IN THIS DIRECTION AS WE BELIEVE IT OFFERS THE MOST LIKELY PROSPECT TO GET SPEEDY HELP TO US CARRIERS WITHOUT SOURING OUR RELATIONS WITH THE DUTCH AND JEOPARDIZING OUR PROSPECTS FOR SELLING THE DUTCH AN AMERICAN LWF. END SUMMARY.

1. KLM POSITION. KLM PRESIDENT ORLANDINI TOLD AMBASSADOR AND ECON COUNSELOR DEC 5 THAT KLM, FOLLOWING THREE SUCCESSIVE YEARS OF MAJOR LOSSES (96 MILLION GULDERS IN 1971, 48 MILLION GULDERS IN 1972, 54 MILLION GULDERS IN 1973), EXPECTS TO
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LOSE BETWEEN 80 AND 100 MILLION GULDERS IN 1974

OR ABOUT \$30 TO 40 MILLION. HE POINTED OUT THAT NORTH ATLANTIC ROUTES PROVIDE 34 PERCENT (US 23 PERCENT, CANADA 11 PERCENT) OF KLM'S TOTAL GROSS EARNINGS, AND THAT KLM SINCE OCTOBER BILATERAL TALKS HAS CUT ITS NORTH ATLANTIC FLIGHTS BY 2 TO 3 A WEEK (ABOUT 10 PERCENT) FROM TOTAL SCHEDULE OF 25 FLIGHTS WEEKLY PRIMARILY BY CANCELLING CERTAIN LOW-LOAD-FACTOR FLIGHTS TO NEW YORK, HE STATED THAT DURING 1973 PANAM OPERATED ON NORTH ATLANTIC WITH AVERAGE LOAD FACTOR OF 58 PERCENT AND KLM WITH 55 PERCENT WHILE DURING FIRST TEN MONTHS OF 1974 PANAM'S LOAD FACTOR WAS 55 PERCENT AND KLM'S 56 PERCENT. HE CONCLUDED THAT AVERAGE LOAD FACTOR OF 60 PERCENT WAS BEST THAT COMPETITIVE SCHEDULED AIRLINE COULD ACHIEVE WITHOUT DIRECT GOVERNMENT INTERVENTION. HE SAID THAT KLM WOULD NOT INCREASE FLIGHTS NEXT SUMMER BUT WOULD INCREASE AVAILABLE SEATS BY ADJUSTING PASSENGER/FREIGHT MIX OF AIRCRAFT AND IS CONSIDERING BUILDING TWO ADDITIONAL BOEING 747'S WHICH WILL BE DESIGNATED TO PERMIT MIX OF PASSENGERS AND 8 FOOT FREIGHT CONTAINERS AND THUS PROVIDE GREATER POSSIBILITY FOR PROFITABLE OPERATION. HE ADDED THAT MINISTER OF TRANSPORT WESTERTERP'S OFFER IN WASHINGTON TO FREEZE KLM'S NORTH ATLANTIC FLIGHTS FOR THREE YEARS IS A SERIOUS AND VALUABLE CONCESSION. WHILE NOTING THAT, WITH LESS INVOLVEMENT OF TWO GOVERNMENTS, IT WOULD BE FEASIBLE FOR PANAM AND KLM TO AGREE ON HOW TO ACHIEVE MORE PROFITABLE OPERATIONS (SUCH AS THE POOLING ARRANGEMENT WORKED OUT BY KLM WITH CANADIAN AIRLINE), HE ALSO POINTED OUT THAT AMERICAN AIRLINES WERE PAID SUBSTANTIALLY LESS FOR HAULING MAIL THAN WERE EUROPEAN AIRLINES AND SAID BRINGING US MAIL PAYMENTS UP TO EUROPEAN STANDARD WOULD PROVIDE PANAM ANNUALLY WITH \$30 MILLION ADDITIONAL REVENUE ACROSS NORTH ATLANTIC.

2. WESTERTERP POSITION. IN RESPONSE TO DCM'S SUGGESTION DURING DEC 5 MEETING WITH MINISTER OF TRANSPORTATION AND WATERWAYS, WESTERTERP AGREED THAT IT WOULD BE WORTH CONSIDERING WHETHER FOREIGN MINISTER VAN DER STOEL SHOULD BE PREPARED AT DEC 11 MEETING WITH SECRETARY KISSINGER TO

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OFFER FURTHER REDUCTION IN KLM FLIGHTS (THAT IS SOMETHING MORE THAN CUTTING KLM'S 25 WEEKLY FLIGHTS BY ONLY 2 OR 3) IN HOPE THAT USG MIGHT THEN BE ABLE TO MOVE FROM ITS REQUEST THAT KLM REDUCE ITS TOTAL WEEKLY FLIGHTS FROM 25 TO ONLY 7 OR 8. WESTERTERP SAID HE WOULD REVIEW THE MATTER WITH VAN DER STOEL AND LET DCM KNOW WHETHER ANYTHING MORE MIGHT BE DONE.

3. COMMENT. NOW THAT THE MATTER HAS BEEN THROWN INTO THE COURTS THE DUTCH SEEM MORE DETERMINED THAN EVER TO DIG IN THEIR HEELS AND FIGHT A DELAYING ACTION. THERE IS A LIMIT TO WHAT KLM CAN REASONABLY BE EXPECTED TO YIELD WILLINGLY, FACED AS IT IS WITH A FOURTH CONSECUTIVE YEAR OF SUBSTANTIAL LOSS. THE MATTER IS PRODUCING OPINION ADVERSE TO THE UNITED STATES NOT ONLY AMONG THE PUBLIC AT LARGE BUT ALSO WITHIN CONSERVATIVE ELEMENTS WHICH HERETOFORE HAVE ALWAYS BEEN FRIENDLILY DISPOSED TOWARDS US. WE PREDICT THIS NEGATIVE ATTITUDE IF PERSISTENT WILL AFFECT THE DUTCH POSITIONS RESPECTING ENERGY, TRADE, NATO AND OTHER MATTERS OF GREAT IMPORTANCE TO US IN THE PERIOD IMMEDIATELY AHEAD, IN ADDITION TO THE CRITICAL F-104 REPLACEMENT ISSUE. MOST DISASTROUS FOR CONTINUED CLOSE RELATIONS WITH DUTCH WOULD BE ADDITIONAL UNILATERAL ACTION BY USG AGAINST KLM BEFORE ALL APPROACHES TO AMICABLE SETTLEMENT HAD BEEN EXHAUSTED.

4. RECOMMENDATION: WE THEREFORE BELIEVE THAT IF BASIS FOR SETTLEMENT DOES NOT EMERGE FROM SECRETARY'S MEETING WITH VAN DER STOEL A MAJOR EFFORT SHOULD BE MADE TOWARD A FURTHER ROUND OF BILATERAL NEGOTIATIONS OR DIRECT NEGOTIATIONS BETWEEN PANAM AND KLM FOR WHICH BOTH HAVE EXPRESSED INTEREST TO US. DUTCH PREFERENCE FOR FURTHER NEGOTIATION WAS CLEARLY INDICATED IN NOVEMBER 29 DUTCH NOTE TO DEPARTMENT. VIEWED FROM HERE SUCH OPTION SEEMS FAR MORE IN OUR NATIONAL INTERESTS--AND PROBABLY IN THAT OF OUR CARRIERS TOO--THAN THE PRESENT COURSE OF PROTRACTED LITIGATION AND ARBITRATION PROCEDURES WHICH THE DUTCH CAN BE EXPECTED TO PURSUE TO FORESTALL THE THREAT OF PUNITIVE ACTION AGAINST KLM.

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